

MEMORANDUM

TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

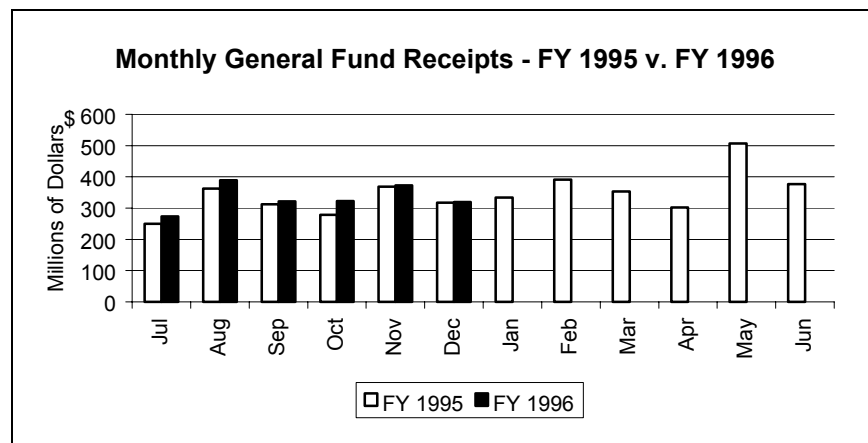
FROM: Dennis C. Prouty

DATE: January 2, 1996

General Fund Receipts Through December 31, 1995

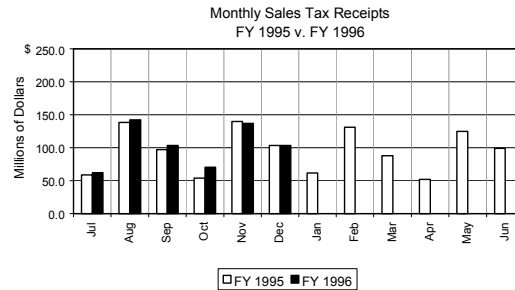
The attached spreadsheet represents total FY 1996 General Fund receipts, with comparable figures for FY 1995. These can also be compared to the latest FY 1996 estimate that was set by the Revenue Estimating Conference (REC) on December 12, 1995.

At the December meeting, the REC increased the FY 1996 General Fund estimate \$8.8 million to \$4.356 billion, which represents an increase of 4.9% over actual FY 1995 receipts. The REC increased the FY 1997 estimate \$14.5 million to \$4.490 billion, an increase of \$134.0 million (3.1%) compared to the latest FY 1996 estimate. Total FY 1997 General Fund receipts net of refunds are projected to increase 3.3% compared to FY 1996.



Total year-to-date General Fund receipts for FY 1996 increased 5.8% over FY 1995. Tax receipts showed an increase of 4.6%. Personal income tax receipts increased 4.6%. Sales tax receipts were 4.6% higher than the previous fiscal year. Use tax increased 5.6% over FY 1995, and corporate income tax receipts showed a 10.8% increase.

Personal income tax receipts through the first two quarters totaled \$37.4 million more than the same period in FY 1995. Revenues received in December, however, were 4.2% less than December 1994, led by a decline in estimate payments. Most of December's decline is probably due to variance in processing. For example, December had one less processing day this year, and far fewer documents were processed than in past years. Additionally, nearly two-thirds of the major FY 1996 legislated and administrative changes (pension exclusion, dependent credit, and changes in withholding) has yet to occur. Adjusted for this factor, personal income tax receipts through December exceeded FY 1995 receipts by approximately 3.8%.

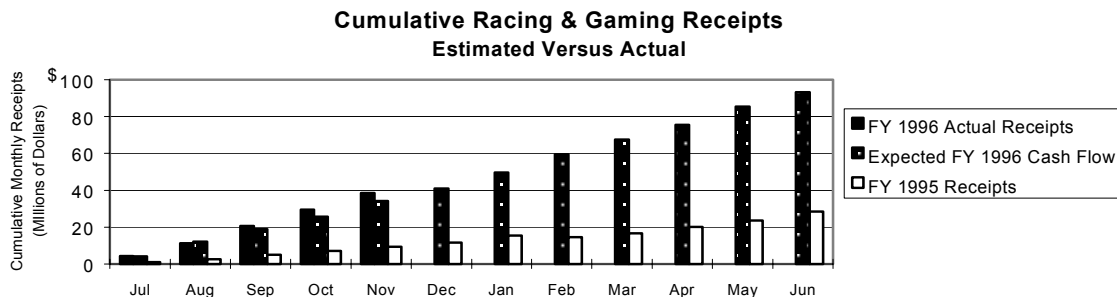


Sales tax receipts in December were 0.3% higher than December of last year. Collections from monthly and semi-monthly filers were 1.7% less than December 1994. Some of this decline may be due to lower holiday retail sales, although sales tax receipts attributed to sectors affected by the holidays historically account for less than 30.0% of December receipts. The monthly decline is mostly due to one less processing day this year. The average amount of revenue per document is actually 4.2% higher than a year ago.

Although year-to-date corporate income tax receipts remain strong, receipts in December were 6.1% less than December 1994. This is the second straight monthly decline. In anticipation of a slowdown in corporate income tax activity, the REC reduced the FY 1996 projection by \$16.9 million.

After finishing FY 1995 15.1% less than the previous year, franchise tax receipts in the first two quarters of FY 1996 were 19.3% lower than the same period in FY 1995. Although receipts remain below initial projections, December receipts were only 0.3% lower than December 1994. Receipts in the last two months combined increased 8.3% compared to the same period last year. We are currently studying the effects of SF 478, a Bill passed during the 1995 Legislative Session to curb the loss of franchise tax revenues.

Racing and gaming receipts continue to be closely monitored. If cash flow adjustments are considered, receipts through December exceeded projections by approximately \$3.8 million. The following chart illustrates the expected cash flow for FY 1996 racing and gaming receipts.



Receipts Compared to REC Estimate

The December REC FY 1996 estimate of 4.9% was exceeded by 0.9 percentage points. Assuming each month is expected to increase by the REC estimate, the estimate for the first six months was exceeded by approximately \$17.0 million. If the timing factors associated with personal income tax law changes are considered, the REC estimate was exceeded by approximately \$10.0 million (0.5 percentage points). Receipts for the remainder of the year must grow 4.1% to reach the December FY 1996 REC estimate.

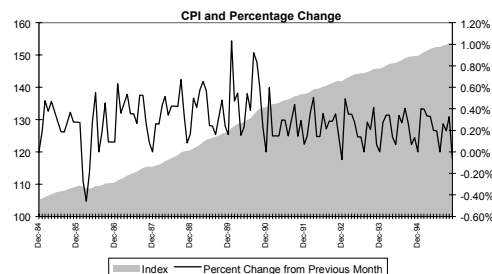
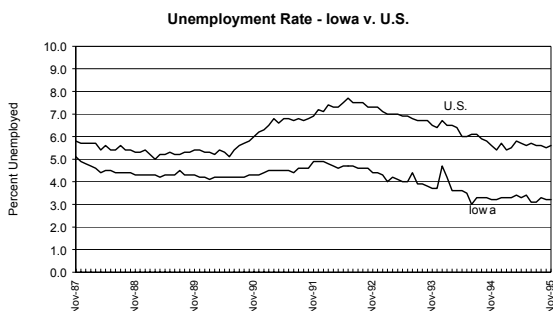
Obligations

School aid payments are to be paid in monthly installments, subject to the cash position of the State. The December installment has been paid, and all payments are scheduled to be completed by June 1996.

Status of the Economy

The seasonally adjusted percent unemployed for the State remained unchanged in November. Approximately 28,800 more Iowans were working than a year ago. Additionally, average earnings outpaced inflation. Average hourly earnings for all private sector jobs increased 3.6% from last year. The U.S. unemployment rate in December increased modestly to 5.6%.

Consumer prices in November decreased by a tenth of a percentage point. The Consumer Price Index (CPI) through November 1995 was 153.6 (1983=100), which is 2.6% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through November 1995.



The Federal Reserve Board reduced short-term interest rates by a quarter percentage point on December 19. The move came after the biggest one-day rise in long-term interest rates in six months. After the Fed's cut, long-term interest rates dropped, and have since fallen below 6.0%.

The Iowa Department of Economic Development reported that housing permits increased, even before action was taken by the Fed. Iowa housing permits in November were 15.0% higher than November 1994. This followed an 18.0% jump in the previous month.

We will be mailing special tax and economic performance reports on a monthly basis. Feel free to contact us for additional information or if you feel the report needs clarification.

GENERAL FUND RECEIPTS - PREVIOUS COMPARED TO CURRENT PERIOD					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars		
July 1, 1995, through December 31, 1995, in millions of dollars					FY 95 Actual Compared to FY 96 REC Estimate		
	FY 1995	FY 1996	Year to Date % CHANGE	December % CHANGE	FY 1995 Actual	FY 1996 Estimate	% CHANGE
Personal Income Tax	\$ 809.5	\$ 846.9	4.6%	-4.2%	\$ 1,875.0	\$ 1,939.0	3.4%
Sales Tax	590.8	618.1	4.6%	0.3%	1,147.3	1,205.9	5.1%
Use Tax	96.0	101.4	5.6%	-14.6%	196.0	210.0	7.1%
Corporate Income Tax	103.8	115.0	10.8%	-6.1%	268.7	273.1	1.6%
Inheritance Tax	47.4	46.4	-2.0%	-20.2%	89.2	90.9	1.9%
Insurance Premium Tax	0.2	0.1	-27.9%	510.1%	102.1	101.0	-1.1%
Cigarette Tax	47.5	47.0	-1.1%	-11.7%	93.3	94.0	0.8%
Tobacco Tax	2.6	2.7	3.7%	-14.8%	5.1	5.2	2.0%
Beer Tax	6.6	6.6	-1.1%	-2.4%	12.4	12.5	0.8%
Franchise Tax	15.2	12.3	-19.3%	-0.3%	28.9	29.4	1.7%
Miscellaneous Tax	1.2	3.6	211.8%	-599.3%	1.0	0.9	-10.0%
Total Special Taxes	\$ 1,720.8	\$1,800.1	4.6%	-2.5%	\$ 3,819.0	\$ 3,961.9	3.7%
Institutional Payments	53.5	51.1	-4.6%	12.1%	107.4	107.2	-0.2%
Liquor Transfers:							
Profits	13.0	13.0	0.0%	16.7%	26.4	26.5	0.4%
7% Gross Revenue	4.5	4.5	0.0%	0.0%	9.0	9.0	0.0%
Interest	7.0	10.7	51.8%	37.7%	17.3	12.0	-30.6%
Fees	25.5	28.1	10.3%	24.7%	57.3	61.8	7.9%
Judicial Revenue	23.9	17.4	-27.1%	22.1%	48.4	40.1	-17.1%
Miscellaneous Receipts	29.8	29.2	-2.1%	-1.9%	40.7	44.1	8.4%
Racing and Gaming Receipts	11.6	44.8	286.5%	186.4%	28.5	93.4	227.7%
TOTAL RECEIPTS	\$ 1,889.8	\$1,998.8	5.8%	0.5%	\$ 4,154.0	\$ 4,356.0	4.9%